

ISSUE DATE: July 25, 2000

DOCKET NO. P-407, 405, 413, 520, 426, 427, 430, 421/CP-97-1237

ORDER ESTABLISHING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott  
Edward A. Garvey  
Joel Jacobs  
Marshall Johnson  
LeRoy Koppendrayner

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Petition for Extended Area  
Service from the Almelund Exchange to the  
Metropolitan Calling Area

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430, 421/CP-97-1237

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**PROCEDURAL HISTORY**

On August 14, 1997, telephone subscribers in the Almelund exchange filed a petition seeking extended area service (EAS) to the neighboring Minneapolis/St. Paul metropolitan calling area. The incumbent local exchange carrier in the Almelund exchange is Contel of Minnesota, Inc. d/b/a GTE Minnesota (GTE).

The incumbent local exchange carriers in the metropolitan calling area are GTE, U S WEST Communications, Inc. (U S WEST), Frontier Communications of Minnesota, Inc. (Frontier), Sprint Minnesota, Inc. (Sprint), Scott-Rice Telephone Company, Lakedale Telephone Company, Sherburne County Rural Telephone Company, Bridgewater Telephone Company, and Eckles Telephone Company.

On November 25, 1998, the Commission issued an Order finding that the proposed EAS route met threshold requirements of adjacency and traffic volume. The Order required the incumbent local exchange carriers serving Almelund and the metropolitan calling area to determine the costs of installing and operating the proposed EAS route and to file proposed rate additives that would recover these costs. The Commission would then poll Almelund subscribers to determine whether they wanted EAS at those rates. The companies duly filed their cost studies and proposed rates.

On November 24, 1999, the Department of Commerce (the Department) filed comments on the proposed rates. The Department recommended using Frontier's proposed EAS rates as a proxy for Sprint's. The Department also made two more comprehensive recommendations: (1) to exclude lost access charges and lost toll revenues from the proposed EAS rate additives; and (2) to find that only incumbent local exchange carriers were "affected telephone companies" within the meaning of earlier Commission Orders establishing carriers' rights to recover EAS costs and to be made whole for other financial losses associated with converting toll traffic to local traffic.

GTE, Sprint, Frontier, and the Minnesota Independent Coalition filed comments in response to the Department's November 24 filing.

Because adopting the Department's recommendations could have a precedential effect on future EAS cases, the Commission served notice of the Department's comments on all carriers authorized to provide local or long distance service within the state. The notice stated that the Commission would accept initial comments on the Department's filing through January 18, 2000 and reply comments through February 16, 2000.

The following parties filed comments in response to the notice: Sprint, U S WEST, and a group of competitive local exchange carriers (CLECs), filing jointly as the Small CLEC Consortium.<sup>1</sup>

The Department filed final comments on February 16, 2000.

On June 20, 2000, the Commission met on the petition.

## **FINDINGS AND CONCLUSIONS**

### **I. Factual and Legal Background**

Extended area service (EAS) is a service arrangement permitting neighboring telephone exchanges to become a single local calling area with toll-free calling. Current criteria for installing EAS and the procedures for determining and allocating EAS costs were set in 1996 by Commission Orders (the EAS Orders)<sup>2</sup>, following an industry-wide fact-finding and policymaking proceeding mandated by the Minnesota Legislature.<sup>3</sup>

#### **A. EAS Criteria**

Briefly, current EAS criteria and procedures are as follows:

- (1) A petitioning exchange must be contiguous with the exchange or local calling area to which it seeks EAS.

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<sup>1</sup> The members of the consortium are HomeTown Solutions, LLC; Hutchinson Telecommunications, Inc.; InfoTel Communications, Inc.; Local Access Network; Mainstreet Communications, LLC; Onvoy Communications; NorthStar Access LLC; Otter Tail Telecom, LLC; Paul Bunyan Rural Telephone Cooperative; Tekstar Communications, Inc.; U.S. Link, Inc.; Val-Ed Joint Venture, LLP; and WETEC LLC.

<sup>2</sup> In the Matter of an Investigation into the Appropriate Local Calling Scope, in Accordance with Minn. Stat. 237.161 (1994), Docket No. P-999/CI-94-296, ORDER REACTIVATING THE PROCESSING OF EAS PETITIONS (October 24, 1995) and ORDER AFTER RECONSIDERATION (February 23, 1996).

<sup>3</sup> Laws 1994, c. 534, art. 1, § 1.

(2) At least 50% of subscribers in the petitioning exchange must make at least three calls per month to the exchange or local calling area to which EAS is sought.

(3) The companies serving the two exchanges or local calling areas must determine the cost of installing and operating the proposed EAS route and file proposed rate additives to recover these costs.

(4) The Commission must allocate between 50% and 75% of the cost of the EAS route to the petitioning exchange, adopt rate additives based on that percentage, and poll subscribers in the petitioning exchange on whether they want EAS at that price. If the petition is for EAS to the metropolitan calling area, 75% of the costs must be allocated to the petitioning exchange.

(5) If 50% of subscribers responding to the poll vote yes, the EAS route must be installed.

#### **A. Costs and Rates**

The EAS Orders adopted the same method of calculating EAS costs as the statute the Orders replaced, and in the same language:

##### *Basis of Rates; Costs.*

*For a proposal to install extended area service, proposed rates must be based on specific additional cost incurred, operating expenses, actual cost for new facilities constructed specifically to provide for extended area service, net book value of existing facilities transferred from another service to extended area service, a return on the capital investment associated with installing and providing the extended area service, and appropriate contributions to common overheads.*

ORDER AFTER RECONSIDERATION, Attachment A, p. 2; Minn. Stat. 237.161, subd. 2, *repealed* by Laws 1990, c. 513, § 3, effective June 1, 1994.

The EAS Orders also adopted the repealed statute's language requiring the Commission to hold local exchange carriers harmless when setting EAS rates:

##### *Rates*

....

*The commission shall establish rates that are income neutral for each affected telephone company at the time at which the commission determines the extended area service rates. The commission shall consider the interests of all parties when determining a fair and equitable extended area service rate for a local telephone exchange that is newly included in the extended area service.*

....

ORDER AFTER RECONSIDERATION, Attachment A, p. 3; Minn. Stat. 237.161, subd. 3 (b), *repealed* by Laws 1990, c. 513, § 3, effective June 1, 1994.

## **II. The Issues**

The Department raised three issues:

- (1) whether the EAS rates set in this case should include lost access charges and lost toll revenues, or whether affected companies should recoup these losses by other means;
- (2) whether competitive local exchange carriers should be treated identically to incumbent local exchange carriers in this case; and
- (3) whether Sprint's proposed rates reasonably reflect the costs of the proposed EAS route.

Each issue will be addressed in turn.

## **III. The Lost Access Charges/Lost Toll Revenues Issue**

### **A. Historical Background**

Setting fair and reasonable rates for extended area service has been a conundrum since extended area service began, mainly because converting a "premium" service (long distance) to a basic service (local service) disturbs the complex web of subsidies by which traditional rate-of-return regulation has promoted universal service. To keep local service rates as low as possible – and thereby promote universal service – this and other state commissions have permitted local exchange carriers to charge long distance carriers "access charges" which arguably exceed the actual costs of providing access to the local network.

Similarly, this and other state commissions have approved intrastate long distance rates that in some cases subsidize local rates. When long distance routes become local service routes, companies lose these access charges and toll revenues. To keep these companies whole, the Commission has generally built recovery of lost access charges and toll revenues into EAS rate additives.

The main advantage of including these charges in EAS rates has been administrative efficiency. Under traditional rate-of-return regulation the Commission must set rates high enough to give the carrier a reasonable opportunity to earn its revenue requirement, including its authorized rate of return. If the Commission reduces a particular rate or revenue stream, it must restore balance by increasing another rate or revenue stream, or it must initiate a rate case to determine a new revenue requirement and new rates. This regulatory compact is the source of the "income neutrality" requirement in the repealed statute and the Commission's EAS Orders.

Adding lost access charges and lost toll revenues to EAS rate additives has been a workable approach for two reasons: (1) it has satisfied the income neutrality requirement (and the commitment to basic fairness which that concept represents under rate-of-return regulation) without the expense and delay of a rate case; (2) it has provided a kind of "rough justice," since the customers causing the loss of the access charges and toll revenues are the same customers paying the EAS rate additives.

Often, however, including lost access charges and lost toll revenues in EAS rate additives dramatically increases rates. In this case, for example, the cost of the facilities, equipment, and labor necessary to install and operate an EAS route between Almelund and the metropolitan

calling area is significantly lower than the rate additives proposed by the companies.

In fact, flat rate residential and business EAS rate additives for the Almelund exchange would be \$6.06 and \$12.13 based on actual costs, but \$17.95 and \$35.90 based on actual costs plus lost access charges and lost toll revenues. Of the \$170,846 the companies seek to recover in this case, over \$100,000 is lost access and toll revenue.

## **B. Emerging Concerns, Positions of the Parties**

As the Department of Commerce points out, including lost access charges and toll revenues in EAS rate additives has always carried with it significant inequities. Since local service rates are rarely set for a single exchange, but reflect averaged company-wide or area-wide costs, to the extent that they exceed cost, access charges and toll revenues subsidize local rates company-wide. Building lost access charges and lost toll revenues into EAS rate additives for a specific exchange forces customers in that exchange to subsidize local rates company-wide.

Similarly, since petitioning exchanges are often assessed up to 75% of the costs of a two-way EAS route (and must be assessed 75% of those costs if the route is to the metropolitan calling area), customers in the petitioning exchange can end up subsidizing not only the local rates of customers in other exchanges served by their own companies, but the local rates of customers in other exchanges served by other companies. (The carrier serving the petitioning exchange makes “transfer payments” to the carrier serving the petitioned exchange.)

As discussed above, the high cost of eliminating these inequities (essentially, the cost of a rate case) has generally led to their toleration, and the Commission has generally met the need for income neutrality by building lost access charges and lost toll revenues into EAS rate additives. The EAS Orders do not specify how the Commission is to achieve income neutrality, however, and the Commission has sometimes used other methods to reach that goal.

There have been earnings investigations, for example, in which the Commission has permitted a company to reduce EAS rate additives in specific exchanges, as opposed to ordering larger company-wide rate reductions.<sup>4</sup> And in at least one Alternative Form of Regulation case, the Commission has permitted a company to reduce EAS rate additives as part of the rate re-balancing required to ensure just and reasonable rates at the beginning of the Plan.<sup>5</sup>

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<sup>4</sup> In the Matter of the Petition of the Department of Public Service for a Commission Investigation of the Level of Rates Charged by Contel of Minnesota, Inc. d/b/a GTE Minnesota, Docket No. P-407/CI-96-216, ORDER APPROVING SETTLEMENT AS MODIFIED (August 29, 1996); In the Matter of the Commission Investigation of the Level of Rates Charged by GTE Minnesota, Docket No. P-407/CI-00-270, ORDER ACCEPTING SETTLEMENT AGREEMENT (May 11, 2000).

<sup>5</sup> In the Matter of a Petition by United Telephone Company of Minnesota Requesting Adoption of an Alternative Regulation Plan, Docket No. P-430/AR-95-1049, ORDER APPROVING UNITED’S ALTERNATIVE REGULATION PLAN (July 12, 1996).

The Department of Commerce argued that in this case the traditional inequities associated with including lost access and toll revenues in EAS rate additives are exacerbated by the emerging presence of local competition and the near-absence of rate-of-return regulation. The Department also argued that including lost access and lost toll revenues in EAS rate additives in this case would undermine local competition, which the Commission has a statutory duty to nurture and promote.<sup>6</sup> The Department therefore urged the Commission to use a different method for ensuring income neutrality.

The positions of the parties on this issue are summarized below.

### **1. The Department of Commerce**

The Department of Commerce (the Department) argued that two factors – the emergence of local competition as a central goal of state and federal telecommunications policy and the increasing irrelevance of rate-of-return regulation in today’s telecommunications environment – require a different approach to income neutrality in this case.

The agency argued that it is anti-competitive to grant companies a perpetual revenue stream replacing overhead and profit unrelated to the cost of the service producing the revenue stream. The agency also argued that, since only one of the carriers involved in this case is subject to traditional, prior-authorization rate-of-return regulation, it is feasible to achieve income neutrality through means other than EAS rate additives.

### **2. The Intervening Carriers**

None of the intervening carriers supported the Department’s proposal, although several expressed a willingness to explore the agency’s concerns through workshops or an industry-wide proceeding.

The carriers argued that the Commission must include lost access charges and lost toll revenues in the EAS rate additives approved in this case, based on three claims:

- (1) the income neutrality requirement imposed in the EAS Orders can only be changed by re-opening the proceeding in which those Orders were issued or by completing a rulemaking;
- (2) the Commission should not change its customary method of calculating EAS rate additives without completing a rulemaking or other industry-wide proceeding;
- (3) the Alternative Form of Regulation statutes, and the plans approved for the companies under those statutes, require the inclusion of this lost revenue in EAS rate additives.

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<sup>6</sup> Minn. Stat. §§ 237.011, 237.16.

### **C. Commission Action**

The Commission agrees with the Department that in this case justice and sound public policy require that EAS rate additives recover only EAS costs and that the income neutrality requirement inherent in the regulatory compact (and explicit in the EAS Orders) be satisfied by other means. This decision is grounded in two concerns.

- (1) Only one of the companies opposing exclusion of these costs operates under traditional, prior-authorization rate-of-return regulation, permitting more creative and equitable approaches to income neutrality;
- (2) The perpetual revenue streams that result from including lost access charges and toll revenues in EAS rates undermine state and federal policies promoting competition in local telecommunications markets.

The Commission finds that neither the EAS Orders nor the Alternative Form of Regulation (AFOR) statutes and applicable AFOR plans require the inclusion of these costs in EAS rate additives. The Commission rejects the claim that it must conduct a rulemaking or a generic industry-wide proceeding before using any means other than EAS rate additives to achieve income neutrality in this case.

These issues will be addressed in turn.

#### **1. The Diminishing Relevance of Rate-of-Return Regulation**

Under traditional, prior authorization rate-of-return regulation, a carrier's rates are set by the Commission at amounts designed to provide a reasonable opportunity for the carrier to recover its prudently incurred costs and earn its authorized rate of return. Since carriers are powerless to raise their rates, simple justice requires that the Commission adjust their rates when it takes actions (such as requiring EAS routes) that raise the carrier's costs or reduce its revenues.

With the exception of GTE, however, all carriers involved in this case can raise at least most of their rates without Commission permission. U S WEST, Frontier, and Sprint operate under Alternative Form of Regulation plans, which allow them to raise rates for all but a handful of price-regulated services without Commission approval.

Scott-Rice, Lakedale, Sherburne, Bridgewater, and Eckles are all independent telephone companies, which can raise their rates without prior Commission approval.<sup>7</sup> (Some of these independent companies have opted for AFOR plans, too, which give them even greater pricing freedom.) With only one carrier under traditional regulation, the logistics of relying on individual, carrier-specific plans to achieve income neutrality are no longer unmanageable, and the Commission will expedite any GTE filing to recover lost revenues attributable to this EAS route.

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<sup>7</sup> Minn. Stat. §§ 237.01, subd. 3 and 237.075, subd. 9.



In short, in this case the regulatory compact does not force the Commission to either build lost access charges and toll revenues into EAS rate additives or initiate nine expensive and time-consuming rate cases to make the companies whole. All companies but GTE have a broad range of revenue-raising methods available to them. Of all these methods, surcharging the local service rates of a particular exchange to subsidize the rates of other exchanges (including the exchanges of other companies) is probably one of the worst. The Commission is confident that the companies can find a better way and will support them as they explore other options.

## **2. Competition in Local Telecommunications Markets**

The Commission agrees with the Department that the perpetual subsidies and revenue streams created by including lost access charges and lost toll revenues in EAS rates undermine state and federal policies opening local telecommunications markets to competition.

First, granting a carrier a permanent right to lost access charges and toll revenues assumes that the company is a monopoly with a stable customer base and a fixed revenue requirement that must continue to be met to serve that customer base. In a competitive market this is no longer true. In a competitive market, a carrier's customer base can shrink or grow, changing its costs and revenues significantly.

In fact, these changes in costs and revenues are one of the engines of competition; competition lowers prices in part because companies react to these changes by becoming more efficient. Maintaining a steady stream of revenue to offset losses sustained under circumstances that no longer apply impairs one of competition's most important functions.

Competition is undermined even more effectively by the transfer payments that often accompany EAS. While there are sound policy reasons for assessing a larger portion of the actual cost of these routes to petitioning exchanges (which is what necessitates the transfer payments), none of these policy reasons apply to recovering lost access charges and toll revenues, which are largely subsidies to reduce the cost of local service company-wide. There is no policy justification for requiring a carrier's potential competitors to subsidize its company-wide prices, and such a requirement clearly harms competition, to the detriment of consumers.

Finally, using regulation to preserve lost revenue streams in competitive markets is unsustainable and inequitable in the long run. It disrupts the cost/price relationship on which competition depends. In its place, it substitutes arcane subsidies that were originally devised to address practical impediments that no longer exist. It distributes unearned advantages and disadvantages to competing carriers based on historical accidents, such as when specific exchanges outgrew their toll-free calling areas and how much a particular company's access charges and toll rates subsidized local service rates.

For all these reasons, the Commission concludes that, in this case, including lost access charges and lost toll revenues in the EAS rate additives would violate the Commission's duty to promote competition in local telecommunications markets and to ensure that rates for telecommunications services are just and reasonable.<sup>8</sup>

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<sup>8</sup> Minn. Stat. § 237.011.

#### **IV. The Role of Rulemaking, AFOR Plans, and Commission Precedent**

##### **A. The Rulemaking/Generic Proceeding Issue**

Several carriers argued that any decision to abandon income neutrality in EAS cases could only be reached and implemented through rulemaking, since income neutrality was required by the EAS Orders, which effectively functioned as rules.

The carriers make a good argument, but it is off-point. The Commission is not abandoning income neutrality; it is merely finding that one traditional method of achieving it – including lost access charges and toll revenues in EAS rate additives – is inequitable and contrary to public policy under the facts of this case. The Commission is confident that the companies serving the metropolitan calling area can find competitively neutral methods of recouping lost revenues in this case, and it will expedite its review of any filing they consider necessary for that purpose.

Similarly, the Commission rejects the notion that it must conduct a rulemaking or industry-wide generic proceeding to depart from its much-used practice of including lost access charges and lost toll revenues in EAS rate additives. As explained above, this practice was not required by rule; it was used on a case-by-case basis to accomplish a regulatory objective – income neutrality – which *was* required by the EAS Orders.

The Commission has the right and the duty to depart from precedent when the facts of the case at hand make following that precedent unjust, inequitable, or otherwise at odds with the Commission's statutory responsibilities. That is the case here.

##### **A. The AFOR Issue**

The Commission also rejects the carriers' claims that the AFOR statutes and the AFOR plans under which they operate require the inclusion of lost access charges and toll revenues in EAS rate additives. First, the language in these statutes and plans is permissive, not mandatory.<sup>9</sup> It permits but does not require local rate increases to cover EAS costs and achieve income-neutrality in EAS cases.

Second, the language in the AFOR statutes and plans does not require that specific EAS rate additives include lost access charges and toll revenues. Like the EAS Orders (and the old EAS statute), it speaks only to income neutrality, not to how income neutrality is to be achieved. As discussed above, the Commission is not abandoning income neutrality; it is merely declining to use one traditional method of achieving it in this case.

##### **A. Conclusion**

For the reasons set forth above, the Commission concludes that it need not conduct a rulemaking or generic industry-wide proceeding to exclude lost access charges and lost toll revenues from the EAS rate additives adopted in this case.

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<sup>9</sup> Minn. Stat. §§ 237.76 *et seq.*

## **V. Proper Treatment of Competitive Local Exchange Carriers**

### **A. The Issue**

Because adopting the Department's recommendations in this case could have a precedential effect on future EAS cases, the Commission served notice of the Department's comments on all carriers authorized to provide local or long distance service within the state. One of the issues on which the Commission solicited comments in that notice was whether competitive local exchange carriers (CLECs) should be treated as "affected telephone companies" under the EAS Orders.

Affected telephone companies file cost studies and proposed rates before an exchange is polled. If the exchange votes to install EAS, affected telephone companies make or receive the transfer payments that result from the petitioning exchange being ordered to pay 50% or more of total EAS costs.

The Department recommended limiting affected telephone company status to incumbent carriers. The Department believed that, since CLECs can set and change their rates without prior Commission approval, requiring them to submit proposed EAS rates would be confusing at best and meaningless at worst. Further, CLECs have never been subject to rate-of-return regulation and therefore do not have baseline cost studies meeting regulatory standards. Requiring these cost studies for EAS purposes would, in the Department's view, increase the cost and complexity of the EAS process without commensurate benefits.

The commenting carriers offered to explore the policy issues of CLEC participation in the EAS process through a rulemaking, workshops, joint legislative initiatives, or other means. Apart from this, individual carriers' positions varied.

GTE agreed that CLECs should not be categorized as affected companies. The Small CLEC Consortium urged the Commission to make incumbent carriers responsible for installing adequate EAS facilities and to resolve compensation issues through interconnection agreements. Sprint recommended permitting CLECs to determine for themselves, on a case-by-case basis, whether they wished to file cost studies and proposed EAS rates and in turn receive EAS transfer payments.

All commenting parties recognized a distinction between CLECs that resell incumbent's services, whose EAS costs will come in the form of an increase in the incumbent's wholesale rates, and CLECs that provide facilities-based service, who will incur their own EAS costs. None of the commenting CLECs stated an intention or desire to participate in this EAS case as an "affected telephone company."

### **A. Commission Action**

The Commission believes that this issue can and should be deferred until a CLEC seeks "affected telephone company" status. This issue is too new, too important, and too fact-intensive to be decided in the abstract without the benefit of vigorous advocacy by an affected party.

For purposes of this case the Commission will therefore treat only the incumbents as "affected telephone companies," and the Commission will poll only GTE customers in the Almelund

exchange. Should polling not begin within six months of this Order, the Commission will reexamine this decision in light of any further developments.

## **VI. The Sprint Rate Additives**

### **A. The Issue**

The Department challenged Sprint's EAS cost studies and proposed rate additives because they were based on the hypothetical cost of installing new fiber optic cable between Almelund and every Sprint exchange in the metropolitan calling area. The Department stated that that investment would be excessive and would clearly never be made. The agency recommended using Frontier's cost studies and proposed rate additives as a proxy for Sprint's.

Sprint agreed that it would not be prudent to actually install new fiber optic cable between Almelund and all its metropolitan exchanges and stated that it did not plan to do that. The company continued to support its cost study, however, saying that the cost study properly assumes the presence of a forward-looking, least-cost, most-efficient network, and that such a network would include the fiber optic cable at issue.

### **A. Commission Action**

EAS cost studies are not theoretical exercises; their purpose is to determine what it will actually cost a specific company to install and operate a specific EAS route. While Sprint's "forward-looking, least-cost, most-efficient network" methodology would be eminently useful in some contexts, it is not useful in setting EAS rate additives.

The Commission will therefore do as the Department suggests and use Frontier's cost studies and proposed rate additives as proxies for Sprint's. The two companies and their relation to the Almelund exchange are similar enough to justify this substitution. Both companies have multiple metropolitan exchanges, and both companies carry negligible amounts of traffic to and from Almelund. The Commission will treat the costs of the two companies as comparable for purposes of this docket, for lack of a better alternative.

## **VII. Fractional Rate Additives; Lower-Cost Alternative Service**

The Department submitted two alternative sets of rate additives that it considered supportable in this case. One included fractional amounts lower than one cent; the other dropped fractional amounts lower than one cent. The Department recommended adopting the non-fractional rate additives, to prevent customer confusion.

The carriers involved urged the Commission to approve the rate additives including fractions below one cent, saying that it was their practice to accumulate these fractional amounts until they reached an amount that justified billing.

The Commission finds that the risk of customer confusion is small, given the companies' plans to maintain stable rate schedules by accumulating fractional amounts. The Commission will therefore adopt the rate additives including fractional amounts. The companies will of course be required to give customers clear and understandable notice when accumulated amounts become billable.

Finally, the Commission will require GTE to recalculate the rates for Almelund's lower-cost alternative to EAS service, required under the EAS Orders for routes to the metropolitan calling area, to reflect the decision to exclude lost access charges and lost toll revenues from EAS rates.

#### **VIII. Rates Adopted; Polling Ordered**

For the reasons set forth above, the Commission adopts the EAS rate additives filed by the Department, which do not include lost access charges and lost toll revenues. Those rate additives appear in Attachment B to the Department's November 24, 1999 comments. The Commission adopts the additives set forth in column 1, which include fractional rate additives. The monthly rate additives for the Almelund exchange will be \$6.06 for residential subscribers and \$12.13 for business subscribers.

The last step in the EAS decision-making process is to poll subscribers in the petitioning exchange to determine if the majority favors installing EAS at the rates set by the Commission. The Commission will proceed to polling and will direct GTE to provide the information and cooperation required for a fair and efficient poll.

#### **ORDER**

1. The Commission approves and adopts the following rate additives for the proposed EAS route between Almelund and the metropolitan calling area:

#### **EAS Additives for Almelund (based on 75% allocation)**

<b>Class of Service</b>	<b>EAS Additive</b>
One Party Residential	\$6.06
One Party Business	\$12.13

**EAS Additives for MCA Exchanges (based on 25% allocation)**

<b>Company</b>	<b>Class of Service</b>	<b>EAS Additive</b>
<b>GTE</b>	One Party Residential	\$0.01
	One Party Business	\$0.02
<b>Frontier</b>	One Party Residential	\$0.00004
	One Party Business	\$0.00012
	Bus. Key Trunk	\$0.00014
	Bus. PBX Trunk	\$0.00018
	School One Party	\$0.00009
	School Key Trunk	\$0.00010
	School PBX Trunk	\$0.00013
<b>US West</b>	Residential Flat	\$0.00043
	Business Flat	\$0.00125
	Business Message	\$0.00076
	Trunks	\$0.00131
	Centrex/Centron	\$0.00142
	Public/Semi Public Coin	\$0.00144
<b>Sprint</b>	Residential One Party	\$0.00003
	Business One Party	\$0.00007
	Key/Trunk	\$0.00008
	Semi-Public	\$0.00007
	COCOT	\$0.00007
	School Service	\$0.00005
<b>Scott Rice</b>	Prior Lake Resid. One Party	—
	Prior Lake Bus. One Party	--
	New Market Res. One Party	--
	New Market Bus. One Party	--
	Webster Res. One Party	--
	Webster Res. One Party FX	--
	Webster Bus. One Party	--
	Webster Bus. One Party FX	--

<b>Company</b>	<b>Class of Service</b>	<b>EAS Additive</b>
<b>Lakedale</b>	Montrose	--
	Waverly	--
<b>Sherburne County Rural</b>	Zimmerman Res. One Party	--
	Zimmerman Bus. One Party	--
	Zimmerman Payphones	--
	Big Lake Res. One Party	--
	Big Lake Bus. One Party	--
	Big Lake Payphones	--
<b>Bridgewater</b>	Monticello Resid. One Party	--
	Monticello Bus. One Party	--
	Monticello PBX Trunk	--
	Monticello Key System Line	--
	Enfield Res. One Party	--
	Enfield Bus. One Party	--
	Enfield PBX Trunk	--
	Enfield Key System Line	--
<b>Eckles</b>	Res. Town	--
	Res. Rural	--
	Bus. Town	--
	Bus. Rural	--
	Key System Town	--
	Key System Rural	--
	PBX Line Analog	--
	PBX Line Digital	--
	Payphones	--

2. All GTE subscribers in the Almelund exchange shall be polled on whether they favor installing extended area service to the metropolitan calling area. The actual rates that would be charged for all classes of local service in Almelund if the route were installed shall be set forth clearly in the polling materials.

3. GTE shall provide cooperation and assistance to Commission staff and Commission contractors during the polling process. Such cooperation and assistance shall include, but need not be limited to, the following:
  - (a) providing usable, deliverable addresses for all access lines in a format and under time frames set by Commission staff;
  - (b) providing proof of the accuracy of customer lists as requested by Commission staff;
  - (c) providing a list of Almelund subscribers as of the date specified by Commission staff.
1. Within 30 days of the date of this Order, GTE shall file a description of the lower-cost alternative to extended area service which it proposes to offer Almelund subscribers. Rates for that alternative service shall not include lost access charges or lost toll revenues.
2. All carriers instituting EAS rate additives resulting from or including accumulated fractional amounts shall provide full explanations to subscribers, to avoid customer confusion.
3. If the majority of those voting in the Almelund EAS poll vote in favor of installing EAS, all carriers serving the metropolitan calling area shall cooperate with the Department of Commerce to install the new EAS route as promptly and efficiently as possible.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)

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**Views of Commissioner Edward Garvey  
on the Almelund and Nicollet EAS Petition Decisions  
Docket Nos. P-407, et al./CP-97-1237 and P-414, 416, 421/CP-97-44**

By deciding to remove access charges and toll revenues from extended area service (EAS) additives as part of the Nicollet and Almelund EAS petitions, the Commission did the right thing in the wrong way. It is right to remove such costs from EAS additives. These costs are implicit subsidies in the EAS additives that should be eliminated if we are ever to get to cost-based pricing and true competition for local telephone service.

That being said, it is wrong to make these types of sweeping changes in individual EAS dockets. A more generic approach should be pursued. I advocate this for three reasons. First, all ratepayers, not just those who happen to be located within the Almelund and Nicollet exchanges, should benefit from the lower prices which result when access charges and toll revenue are eliminated from EAS additives. However, that is not the case (nor can it be) when the Commission, led by the Department of Commerce, pursues these changes on a case-by-case basis. Implementation of these policy changes on a case-by-case basis is too slow and does not benefit those ratepayers (likely, the majority of Minnesotans) who already have these EAS implicit subsidy additives built into the price of their local telephone service. A generic proceeding would allow the Commission to apply this benefit to all Minnesotans, as opposed to just the lucky few communities who now seek, and those who will subsequently seek, EAS.

Second, EAS is a complicated mess that should be “fixed.” By attempting to remedy EAS on a case-by-case basis, the Commission and the Department have just made the situation more complicated. Alternatively, utilizing a generic approach could result in systemic solutions.

Finally, the Commission’s decision in this case disrupts the ugly but delicate EAS balance. In order to give the public its preferred flat rate calling plans, which generate revenue losses to telephone companies as a result of lost access charges and toll revenues, a complicated EAS process was designed to provide telephone companies with revenue neutrality. No one really likes this type of process but it is what happens when there is a need to balance two competing interests. An ugly compromise occurs.

However, the Commission’s decision to remove access charges and toll revenues from the EAS additive means that telephone companies will no longer be kept whole. That, in turn, means that the ugly balance is undone with the probable result being that telephone companies will be much less likely to accommodate EAS efforts. That opposition will not help the public we serve nor make for a very efficient regulatory process. A generic process would likely address the lost revenue issue in a thorough and thoughtful manner, in addition to providing an opportunity for the Commission to address the myriad of other issues which result from the decision to remove access charges and toll revenues from EAS additives.

In order to achieve an admirable goal, the Commission took the easy way out. It may work, but I have my doubts. Difficult situations can rarely be solved with easy decisions that lack consensus. Rather, such decisions often make difficult situations worse. I fear that this is the case with EAS. A generic approach, although more time consuming, is more likely to achieve the desired results and, in turn, benefit a greater number of people.